

Message Text

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E.O. 11652: N/A

TAGS: EFIN

SUBJECT: CONGRESSIONAL TESTIMONY BY ASSISTANT SECRETARY
ENDERS

TO ENDERS FROM KATZ

1. FOLLOWING IS DRAFT TESTIMONY FOR YOUR APPEARANCE BEFORE
SENATOR CHURCH'S SUBCOMMITTEE ON MULTINATIONAL CORPORTATION
OF THE SENATE FOREIGN RELATIONS COMMITTEE ON FRIDAY,
FEBRUARY 14 AT 10:00 AM. WE WILL CONTINUE TO REFINE.

2. MR. CHAIRMAN, YOU HAVE ASKED ME TO DISCUSS THE \$25
BILLION FINANCIAL SOLIDARITY FUND WHICH SECRETARIES
KISSINGER AND SIMON PROPOSED LAST NOVEMBER. YOU ALSO
REQUESTED INFORMATION ON IMF FACILITIES TO RECYCLE
SURPLUS OIL REVENUES.

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3. I WILL CONCENTRATE ON THE FOREIGN POLICY DIMENSIONS OF
THESE FINANCIAL MECHANISMS AND RELATE THEM TO OUR OVERALL
STRATEGY ON THE OIL CRISIS. ASSISTANT SECRETARY COOPER
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OF THE TREASURY, WHEN HE TESTIFIES NEXT WEEK, CAN THEN
HANDLE MORE TECHNICAL QUESTIONS. AS YOU KNOW, HE IS
REPRESENTING US IN PARIS AT THE DISCUSSIONS TO DRAFT THE
AGREEMENT ESTABLISHING THE \$25 BILLION OECD FACILITY.

THE ROLE OF FINANCIAL MECHANISMS IN OUR OVERALL OIL STRATEGY

4. THE ARAB OIL EMBARGO OF 1973 AND THE SUBSEQUENT QUADRUPLING OF OIL PRICES HAVE PROFOUNDLY ALTERED THE WEB OF INTERNATIONAL ECONOMIC RELATIONS. IN FACT, THEY HAVE GIVEN THE WORLD ECONOMY ITS GREATEST SHOCK SINCE THE GREAT DEPRESSION OF THE THIRTIES. HIGHER OIL PRICES HAVE SUBSTANTIALLY REDUCED REAL INCOME IN CONSUMING COUNTRIES, ADDED SIGNIFICANTLY TO INFLATIONARY PRESSURES AND PRESENTED A LONG-RUN BALANCE OF PAYMENTS ADJUSTMENT PROBLEM OF IMPRESSIVE MAGNITUDE.

5. IN KEEPING WITH THESE MONUMENTAL DIFFICULTIES, THE INDUSTRIAL NATIONS HAVE ENGAGED IN AN INTENSE, MULTIFACETED DIALOGUE. IT AIMS AT A COOPERATIVE SOLUTION TO OUR MUTUAL ENERGY PROBLEMS. OUT OF THIS DIALOGUE, AN INTEGRATED STRATEGY HAS EMERGED. IT HAS THREE PRINCIPAL ELEMENTS.

-- TO PROTECT AGAINST A NEW EMBARGO, MAJOR CONSUMING NATIONS NEED TO STOCKPILE MORE OIL AND AGREE ON HOW TO SHARE OIL IN AN EMERGENCY. THE NEW INTERNATIONAL ENERGY AGENCY NOW HAS SUCH ARRANGEMENTS VIRTUALLY IN PLACE.

-- FOR THE LONG-RUN, WE HAVE NO ALTERNATIVE TO REDUCING SEVERELY OUR DEPENDENCE ON IMPORTED OIL. THIS MEANS JOINT ACTION BY OIL CONSUMING NATIONS TO CONSERVE ENERGY AND DEVELOP NEW ENERGY SOURCES. WE ARE ALREADY MAKING GREAT PROGRESS IN THIS DIRECTION IN THE IEA FRAMEWORK.

-- FOR THE SHORT AND MEDIUM TERM, WE MUST INSURE THAT CONSUMING NATIONS HAVE THE BALANCE OF PAYMENTS FINANCING THEY NEED. SUCH FINANCING IS NOT A PERMANENT SOLUTION. WHAT IT DOES IS BUY TIME. IT TIDES US OVER THE DISEQUILIBRIUM PERIOD BEFORE ENERGY CONSERVATION AND DEVELOPMENT LIMITED OFFICIAL USE
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MENT MEASURES CREATE THE NECESSARY CONDITIONS FOR FULL ADJUSTMENT IN THE VOLUME AND PRICE OF OIL IMPORTS.

6. IF WE DO NOT FIND WAYS TO PROVIDE THIS FINANCING, WE WILL COMPOUND THE ENERGY CRISIS WITH INTRACTABLE TRADE AND FINANCIAL PROBLEMS. THE POSSIBILITIES ARE STARK.

-- SOME OF OUR TRADING PARTNERS WOULD BE FORCED TO SEEK IMMEDIATE ADJUSTMENT THROUGH TRADE AND PAYMENTS RESTRICTIONS. THIS IS THE BEGGAR-YOUR-NEIGHBOR APPROACH WHICH LED US TO RACK AND RUIN IN THE THIRTIES. IT IS AN ILLUSION. ATTEMPTS TO SHIFT THE DISTRIBUTION OF AN

UNAVOIDABLE AGGREGATE DEFICIT ONLY INVITE RETALIATION.
THEY INEVITABLY LEAVE EVERYONE WORSE OFF.

-- OTHER NATIONS MIGHT TRAVEL THE ROCKY ROAD OF COMPETITIVE EXCHANGE RATE POLICIES, WHICH ADDS FUEL TO THE INFLATIONARY FIRE, OR REDUCE AGGREGATE ECONOMIC ACTIVITY AND EMPLOYMENT TO INTOLERABLE LEVELS. THE DOMESTIC ECONOMIC PAIN RESULTING IS OBVIOUS. LESS OBVIOUS BUT JUST AS IMPORTANT ARE THE POLITICAL REPERCUSSIONS. ECONOMIC UNREST OFTEN BUILDS THE POWER BASE OF EXTREME FACTIONS ON BOTH THE RIGHT AND LEFT. MANY TIMES, THE RESULT IS CONFRONTATION, VIOLENCE AND INSTABILITY WHICH PARALYZES GOVERNMENTS OR DRIVES THEM TO UNSOUND FOREIGN AND DOMESTIC POLICIES. THIS IS ANOTHER LESSON THE THIRTIES SHOULD HAVE TAUGHT US.

-- A THIRD GROUP OF COUNTRIES MIGHT SEEK SALVATION IN ONE-SIDED BILATERAL ARRANGEMENTS WITH OIL PRODUCING COUNTRIES. THEY MIGHT FOR EXAMPLE PROVIDE SPECIAL POLITICAL OR ECONOMIC INDUCEMENTS TO ATTRACT OPEC FUNDS. THIS WOULD INDUCE A SENSELESS SCRAMBLE FOR OPEC INVESTMENTS. AS A RESULT, ALL WOULD END UP PAYING A HIGHER PRICE FOR MONEY WHICH MUST FLOW BACK TO CONSUMING NATIONS IN ANY CASE. IN ADDITION, THE ENSUING DISINTEGRATION OF CONSUMER SOLIDARITY WOULD DESTROY THE LINCHPIN OF OUR OVERALL STRATEGY. WE NEED NOT SEEK CONFRONTATION WITH OIL PRODUCERS. IN FACT, COOPERATIVE MODES OF BEHAVIOR BEST SERVE OUR INTERESTS. COOPERATION MUST BE FIRMLY LIMITED OFFICIAL USE
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BASED, HOWEVER, ON A JOINT CONSUMER APPROACH. OTHERWISE, SEPARATE ACTION WILL UNNECESSARILY ENHANCE THE POLITICAL AND ECONOMIC POWER OF THE CARTEL. THE POLITICAL DIMENSION IS OFTEN OVERLOOKED BUT IT IS OF OVERRIDING IMPORTANCE. IT IS SIMPLY NOT IN OUR INTEREST TO HAVE OUR FRIENDS AND ALLIES TOO BEHOLDEN TO INDIVIDUAL OPEC NATIONS. UNDER SUCH CIRCUMSTANCES, IT WOULD BE MUCH HARDER TO ACHIEVE A CONSTRUCTIVE CONSENSUS ON HOW TO DEAL WITH SENSITIVE FOREIGN POLICY AREAS SUCH AS EAST-WEST RELATIONS AND THE MIDDLE EAST.

7. FACED WITH SUCH PROSPECTS, IT IS CLEARLY IMPERATIVE TO FIND THE MEANS TO PROVIDE NEEDED BALANCE OF PAYMENTS FINANCING TO CONSUMING NATIONS, BOTH DEVELOPED AND LESS DEVELOPED. BEFORE TURNING TO FINANCIAL SOLUTIONS, WE SHOULD FIRST, HOWEVER, BE MORE PRECISE ABOUT THE NATURE OF THE RECYCLING PROBLEM.

8. ONE SIDE OF THE COIN IS THE VAST ACCUMULATION OF FUNDS BY KEY OPEC NATIONS. THEIR CURRENT ACCOUNT SURPLUS LAST YEAR TOTALED \$60 BILLION. MOST OBSERVERS EXPECT THE

FIGURE FOR 1975 TO BE OF THE SAME ORDER. BEYOND THAT, THE CRYSTAL BALL GETS CLOUDIER. RECENTLY, THERE HAVE BEEN A NUMBER OF OPTIMISTIC PROJECTIONS REGARDING THE FUTURE EVOLUTION OF OPEC SURPLUSES. SOME ESTIMATES INDICATE THAT THE SURPLUS PEAKED IN 1974 AND WILL DISAPPEAR BY 1980. I HOPE THEY ARE RIGHT. TO THE EXTENT THAT WE ACT WISELY THEY WILL TEND TO BE. THEY MAKE, HOWEVER, CERTAIN CRITICAL ASSUMPTIONS ABOUT THE FUTURE PRICE OF AND DEMAND FOR OPEC OIL, AS WELL AS THE DISTRIBUTION OF OPEC PRODUCTION. THEY ALSO HYPHESIZE A RELATIVELY RAPID GROWTH IN THE IMPORTS OF OPEC STATES WITH A LOW ABSORPTIVE CAPACITY. ONE CAN MAKE EQUALLY PLAUSIBLE ASSUMPTIONS ABOUT ALL THESE THINGS AND END UP WITH LESS HOPEFUL RESULTS. IT IS QUITE POSSIBLE THAT OPEC AS A GROUP WILL RUN SUBSTANTIAL SURPLUSES ON CURRENT ACCOUNT THROUGHOUT THIS DECADE, REACHING BALANCE OF PAYMENTS EQUILIBRIUM ONLY IN THE EARLY OR MID 1980S.

9. IN THE AGGREGATE, THE OPEC INVESTIBLE SURPLUSES MUST RETURN AS CAPITAL FLOWS TO OIL CONSUMING NATIONS. THERE LIMITED OFFICIAL USE
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IS LITERALLY NO WHERE ELSE FOR THEM TO GO. THE DISTRIBUTION OF THE RETURN FLOW IS, HOWEVER, FAR FROM OPTIMAL. THERE IS NO COINCIDENCE BETWEEN THE MOST FAVORABLE INVESTMENT MARKETS FROM THE OPEC STANDPOINT AND THE FINANCING NEEDS OF CONSUMING COUNTRIES. THIS IS THE ESSENCE OF THE RECYCLING PROBLEM. THE INVESTMENT STRATEGIES OF KEY OPEC COUNTRIES ARE STILL VERY CONSERVATIVE. THE EXCESS OIL REVENUES GO MOSTLY IN LIQUID FORM TO HIGHLY DEVELOPED CAPITAL MARKETS. \$40 BILLION OF THE \$60 BILLION ACCUMULATED LAST YEAR FLOWED TO THE U.S., U.K. AND EURODOLLAR MARKETS. PRECIOUS LITTLE WENT TO THE NATIONS EXPERIENCING THE WORST BALANCE OF PAYMENTS PROBLEMS AS A RESULT OF THE OIL CRISIS. THERE IS AUTOMATIC FINANCING NEITHER FOR DEVELOPED COUNTRIES CONSIDERED LESS CREDITWORTHY NOR FOR THOSE DEVELOPING NATIONS TO WHICH HIGHER OIL PRICES HAVE DEALT A CRIPPLING BLOW.

10. UP UNTIL LAST SUMMER, MANY THOUGHT THAT THE PRIVATE MARKET COULD SET THINGS RIGHT WITHOUT GOVERNMENT INTERVENTION. IN FACT, PRIVATE FINANCIAL MARKETS HAVE HANDLED WELL THE MAJOR BURDEN OF THE PROBLEM CAUSED BY THE DISPARITY BETWEEN OPEC INVESTMENT FLOWS AND OIL IMPORTERS' DEFICITS. BUT IT IS NOT REASONABLE TO EXPECT THEM TO SHOULDER ALL OF THE BURDEN IN THE FACE OF CONTINUED LARGE SURPLUSES. THE BANKING ENVIRONMENT IS NOT CONDUCIVE TO PROVIDE BANKS CARRYING THE ENTIRE RECYCLING TASK WITHOUT SOME BACKUP OR SAFETY NET FACILITY OF OFFICIAL FINANCING. IN RECENT YEARS, WE HAVE

WITNESSED AN OVEREXPANSION OF BANK CREDIT WHICH HAS LEFT THE CAPITAL/ASSET RATIOS OF MANY INSTITUTIONS AT DANGEROUS LEVELS. IN ADDITION BAD MANAGEMENT AND EXCESSIVE FOREIGN EXCHANGE SPECULATION HAVE LED TO SEVERAL WELL PUBLICIZED BANK FAILURES. UNDER SUCH CIRCUMSTANCES, INTERNATIONAL BANKS ARE HARD PRESSED TO USE VOLATILE SHORT-TERM DEPOSITS AS A BASE FOR LONG-TERM LENDING. IT WOULD ALSO NOT BE PRUDENT FOR THEM TO DEVELOP AN EXCESSIVE EXPOSURE IN COUNTRIES NOT CONSIDERED CREDITWORTHY BY TRADITIONAL BANKING STANDARDS.

11. BY LAST FALL, IT WAS APPARENT TO US THAT NEW MULTI-LIMITED OFFICIAL USE
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LATERAL APPROACHES TO BALANCE OF PAYMENTS FINANCING WERE IN ORDER. OUR ANALYSIS INDICATED THE NEED FOR A THREE TRACK APPROACH. THE FIRST TWO INVOLVE EXPANDED USE OF THE IMF. THE THIRD IS THE 25 BILLION DOLLAR OECD FACILITY. LET US TURN FIRST TO THE IMF.

IMF RECYCLING FACILITIES

12. IN THE IMF, WE SUPPORTED THE ESTABLISHMENT LAST SPRING OF A SPECIAL OIL FACILITY. ITS PURPOSE WAS TO PROVIDE OIL DEFICIT COUNTRIES ACCESS TO A SPECIAL FUND BASED ON A FORMULA WHICH TOOK INTO ACCOUNT INCREMENTAL OIL DEFICITS AND INTERNATIONAL RESERVE POSITIONS. BORROWERS MUST MAKE NECESSARY POLICY ADJUSTMENTS TO LOWER THEIR FINANCING NEEDS. THE OIL FACILITY WAS FINANCED BY LOANS FROM OIL PRODUCERS WITH A 7 PERCENT INTEREST RATE AND 7 YEAR REPAYMENT TERMS. THE PRODUCERS IN 1974 AGREED TO PUT 3.5 BILLION DOLLARS ON CALL. SO FAR, SEVERAL DEVELOPED COUNTRIES, NOTABLY ITALY, AND MANY UNDERDEVELOPED ONES HAVE MADE DRAWINGS TOTALING OVER 2-1/3 BILLION DOLLARS. THE REST SHOULD BE USED SHORTLY.

13. WE ALWAYS ENVISAGED EXPANDED IMF LENDING IN 1975 AS THE FIRST, AND MOST IMPORTANT, OF THE THREE FINANCIAL TRACKS OF OUR OVERALL OIL STRATEGY. FOR A NUMBER OF REASONS, HOWEVER, WE FELT THAT AN ENLARGED OIL FACILITY WAS NOT THE BEST WAY TO GO ABOUT THIS.

--AS TIME GOES ON, SIMPLE INCREMENTAL OIL DEFICITS TAKE ON LESS AND LESS MEANING AS INDICATORS OF OIL RELATED BALANCE OF PAYMENTS PROBLEMS. THIS HAPPENS BECAUSE ADJUSTMENTS TO HIGHER OIL PRICES TAKE PLACE IN ALL COMPONENTS OF THE BALANCE OF PAYMENTS, NOT JUST IN THE OIL PORTION OF TRADE ACCOUNT. FOR EXAMPLE, SOME COUNTRIES

RECEIVE MORE OPEC INVESTMENTS. OTHERS ARE BETTER ABLE

TO EXPAND EXPORTS TO OPEC NATIONS.'

--ALSO, WE FELT THAT THE IMF SHOULD USE ITS OWN LARGE
RESOURCES DIRECTLY TO PROVIDE BALANCE OF PAYMENTS
FINANCING RATHER THAN USING THEM IN EFFECT AS COLLATERAL
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FOR BORROWING.

14. WE THEREFORE PROPOSED THAT THE IMF EXPAND ITS LENDING
THROUGH LIBERALIZATION OF ITS LENDING IN THE SO CALLED
CREDIT TRANCHE. MOST OTHER NATIONS STRONGLY SUPPORTED,
HOWEVER, AN ADDITIONAL EXPANSION OF THE OIL FACILITY. IN
THE END, A COMPROMISE WAS REACHED. THE IMF INTERIM COMMIT-
TEE IN MID-JANUARY AGREED ON AN ENLARGED OIL FACILITY FOR
1975. THE COMMITTEE APPROVED A FIGURE OF 6 BILLION DOLLARS
FOR ITS LEVEL, SUBSTANTIALLY LESS THAN EARLIER TALKED
ABOUT. AT THE SAME TIME, IT WAS AGREED THAT THE IMF WOULD
MAKE GREATER USE OF ITS NORMAL LENDING RESOURCES IN 1975
AND CONSIDER CREDIT TRANCHE LIBERALIZATION FOR 1976.

15. THE OIL FACILITY WILL BE OF PARTICULAR BENEFIT TO THE
BETTER OFF OF THE LESS DEVELOPED COUNTRIES, THOSE WHO HAVE
GOOD ACCESS TO PRIVATE CAPITAL MARKETS BUT NEED SOME RESI-
DUAL FINANCING. WE REALIZED, HOWEVER, THAT ITS NEAR COM-
MERCIAL TERMS WERE NOT APPROPRIATE FOR THE POOREST
DEVELOPING COUNTRIES. SECRETARY KISSINGER THEREFORE PRO-
POSED LAST NOVEMBER A SECOND FINANCING TRACK FOR THESE
NATIONS. IT CONSISTED OF A SPECIAL TRUST FUND TO BE SET
UP UNDER IMF MANAGEMENT TO LEND TO THEM ON HIGHLY CONCES-
SIONAL TERMS. WE ENVISAGED MAJOR CONTRIBUTIONS TO THE
TRUST FUND COMING FROM OIL PRODUCERS, FROM OTHER COUNTRIES
IN A STRONG RESERVE POSITION AND FROM THE PROCEEDS OF
SALES OF IMF GOLD.

16. THERE IS GENERAL AGREEMENT THAT SOME SORT OF CONCES-
SIONAL ARRANGEMENTS IN THE IMF ARE NEEDED FOR THE HARDEST
HIT DEVELOPING NATIONS. FOR THIS PURPOSE THE INTERIM COM-
MITTEE HAS ENDORSED THE IDEA OF A SPECIAL ACCOUNT OF THE
OIL FACILITY WHICH WOULD REDUCE THE INTEREST BURDENS OF
BORROWINGS BY THESE COUNTRIES FROM THE FACILITY. IN
ADDITION, OUR TRUST FUND PROPOSAL IS STILL BEING CONSID-
ERED IN THIS CONNECTION ALONG WITH A NUMBER OF SIMILAR
CONCEPTS ADVANCED BY OTHERS.

BASIC APPROACH OF FINANCIAL SOLIDARITY FUND

17. CONTRARY TO MANY PRESS REPORTS, WE NEVER VISUALIZED
THE FINANCIAL SOLIDARITY FUND AS A COMPETITOR OF IMF
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RECYCLING MECHANISMS. RATHER IT IS A COMPLEMENT. WE NEED TO DO BOTH. WE PROPOSED A FUND FOR OECD NATIONS OUTSIDE THE IMF BECAUSE OF THE VAST MAGNITUDE OF THE

SUMS INVOLVED. IN ADDITION, WE THOUGHT IT VERY IMPORTANT TO LINK ACCESS TO THESE FUNDS WITH POLICIES OF CONSUMER SOLIDARITY DESIGNED TO IMPROVE THE SUPPLY AND DEMAND CONDITIONS FOR INTERNATIONALLY TRADED OIL. AS I SEE THEM, THE KEY FEATURES OF THE SOLIDARITY FUND ARE THE FOLLOWING:

--IT IS TEMPORARY. ITS MAIN PURPOSE IS TO ENABLE AND ENCOURAGE CONSUMING COUNTRIES TO FOLLOW RESPONSIBLE POLICIES, BOTH ON THE DOMESTIC AND THE INTERNATIONAL PLANE, WHILE WAITING FOR BASIC ENERGY POLICY DECISIONS TO TAKE EFFECT. BORROWING FROM THE FACILITY WILL BE SOLIDLY CONDITIONED ON THE PURSUIT OF SUCH POLICIES.

--IT IS NOT A GIVE-AWAY PROGRAM OR AN AID FUND. RATHER IT IS A MUTUAL SUPPORT FACILITY. EVERY MEMBER HAS THE POSSIBILITY OF RECEIVING SUPPORT WHEN NEEDED IN AN AMOUNT AT LEAST EQUIVALENT TO ITS COMMITMENT TO HELP OTHERS. LENDING WILL BE ON MARKET-RELATED TERMS AND ON THE BASIS OF ESTABLISHED CRITERIA REGARDING APPROPRIATE ECONOMIC AND ENERGY POLICIES.

--IT IS NOT THE FIRST LINE OF FINANCING FOR PARTICIPATING COUNTRIES. WE DO NOT VISUALIZE THAT A NATION MUST BE ON THE VERGE OF BANKRUPTCY BEFORE OBTAINING ACCESS TO THE FACILITY. BORROWING NATIONS MUST HAVE, HOWEVER, MADE A REASONABLE USE OF OTHER AVAILABLE SOURCES OF FINANCING, INCLUDING THE IMF.

--IT IS STRUCTURED SO AS TO DISTRIBUTE RISK EQUITABLY AMONG PARTICIPATING CONSUMING NATIONS.

--IT IS SUBJECT TO APPROVAL BY CONGRESS AND THE LEGISLATURES OF MOST OTHER PARTICIPATING COUNTRIES.

18. IN CONCLUSION, I WILL TRY TO ANSWER THE SPECIFIC QUESTIONS YOU HAVE RAISED ABOUT THE FINANCIAL SOLIDARITY FUND. YOU WILL REALIZE, HOWEVER, THAT ALL THE DETAILS LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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HAVE NOT YET BEEN WORKED OUT, ALTHOUGH WE EXPECT FINAL AGREEMENT SHORTLY IN THE AD HOC WORKING GROUP OF THE OECD.

MECHANISMS TO RAISE FUNDS FOR FINANCIAL SOLIDARITY FUND
19. THE OECD AD HOC WORKING GROUP, WHICH IS NOW PREPARING THE DRAFT AGREEMENT ON THE FACILITY, IS CONSIDERING THE METHODS WHEREBY PARTICIPANTS MAY FINANCE THEIR CREDITOR

OBLIGATIONS. THE GROUP OF TEN MINISTERS SUGGESTED IN MID-JANUARY THAT THE FINANCING METHODS MIGHT INCLUDE DIRECT CONTRIBUTIONS AND/OR JOINT BORROWING IN CAPITAL MARKETS. THEY ALSO AGREED THAT, UNTIL THE FULL ESTABLISHMENT OF THE NEW ARRANGEMENT, THERE MIGHT ALSO BE

TEMPORARY FINANCING THROUGH CREDIT ARRANGEMENTS BETWEEN CENTRAL BANKS. HOW EACH PARTICIPATING GOVERNMENT FINANCES ITS CONTRIBUTION WILL HINGE ON ITS OWN LEGAL AND POLITICAL CONSTRAINTS. WE FEEL, HOWEVER, THAT DIRECT GOVERNMENT LOANS TO BORROWING COUNTRIES ARE CHEAPER AND MORE EFFICIENT THAN THE USE OF GOVERNMENT GUARANTEES. DIRECT LOANS ALSO PROVIDE MORE OPERATIONAL FLEXIBILITY.

ELIGIBILITY REQUIREMENTS FOR BORROWING ,'
20. THE NEW MECHANISM IS A FINANCIAL "SAFETY NET". IT IS NOT THE FIRST SOURCE OF EXTERNAL ASSISTANCE TO WHICH GOVERNMENTS SHOULD TURN. THE FACILITY'S MANAGEMENT BOARD WOULD BE EXPECTED TO ASSURE ITSELF THAT A PROSPECTIVE BORROWING GOVERNMENT HAD ALREADY EXHAUSTED READILY AVAILABLE SOURCES OF FINANCING. THE BOARD WOULD OF COURSE HAVE TO USE ITS JUDGMENT IN DETERMINING WHAT WAS A REASONABLE EFFORT ALONG THESE LINES, GIVEN EXISTING CIRCUMSTANCES AND THE SERIOUSNESS OF THE SITUATION. THE BOARD WOULD ALSO EXPECT THAT THE BORROWING GOVERNMENT WAS TAKING REASONABLE, BASIC ECONOMIC POLICY MEASURES TO MOVE TOWARD LONG-TERM BALANCE OF PAYMENTS EQUILIBRIUM. IN REACHING ITS JUDGMENTS, WE WOULD EXPECT THE BOARD TO LOOK NOT JUST AT A BORROWING COUNTRY'S OIL DEFICIT BUT AT ITS OVERALL BALANCE OF PAYMENTS POSITION. IN ADDITION, THERE WOULD BE A PROSCRIPTION THAT NATIONS PUTTING ON NEW TRADE AND PAYMENTS RESTRICTIONS WOULD NOT BE ELIGIBLE FOR LOANS. FINALLY, AND MOST IMPORTANTLY, BORROWING GOVERNMENTS WOULD HAVE TO SHOW THAT THEY ARE MAKING A STRONG LIMITED OFFICIAL USE
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EFFORT, IN CONJUNCTION WITH OTHER IEA MEMBERS, TO CONSERVE ENERGY AND DEVELOP NEW ENERGY SOURCES.

21. WHEN OTHER PARTICIPANTS CONSIDER A BORROWER'S REQUEST FOR A LOAN, THEY WILL NORMALLY DECIDE ON THE MATTER BY A TWO-THIRDS MAJORITY. THEIR DECISION WILL ENCOMPASS WHETHER TO GRANT THE LOAN AND, IF SO, WHAT ITS TERMS AND CONDITIONS WILL BE. THE GRANTING OF A LOAN BEYOND THE AMOUNT OF A COUNTRY'S ORIGINAL QUOTA IN THE OIL 200 WILL REQUIRE A VERY STRONG MAJORITY. A LOAN BEYOND 200 PERCENT OF A MEMBER'S QUOTA WILL REQUIRE A UNANIMOUS DECISION.

U.S. CONTRIBUTION

22. THE SIZE OF ITS QUOTA IN THE FACILITY WILL DETERMINE A PARTICIPATING COUNTRY'S VOTING POWER AS WELL AS ITS LENDING OBLIGATIONS AND RIGHT TO BORROW. QUOTAS WILL REFLECT THE SIZE OF DIFFERENT INDUSTRIAL COUNTRIES' ECONOMIES AND SHARES IN INTERNATIONAL TRADE. IN ACCORDANCE WITH THESE CRITERIA, THE UNTIED STATES' SHARE OUGHT

TO BE BETWEEN 25 AND 30 PERCENT. THREE ASPECTS OF THE U.S. CONTRIBUTION SHOULD BE NOTED. FIRST, THE FIGURE FOR A U.S. SHARE IS A MAXIMUM WHICH MAY OR MAY NOT BE LAID OUT DEPENDING ON THE EXTENT TO WHICH THE FACILITY IS USED. IDEALLY, OF COURSE, THE MERE EXISTENCE OF THE FACILITY WILL INSPIRE ENOUGH CONFIDENCE IN CAPITAL MARKETS SO AS TO MINIMIZE THE NEED FOR RECOURSE TO IT. SECOND, FUNDS ARE ONLY LAID OUT AS BORROWING COUNTRIES ARE ABLE TO GAIN APPROVAL FOR THEIR LOAN REQUESTS. THIRD, I WOULD ANTICIPATE THAT WE WOULD NORMALLY FINANCE OUR DIRECT CONTRIBUTION TO LOANS THROUGH BORROWING IN THE U. S. CAPITAL MARKET. OUR PARTICIPATION SHOULD NEITHER INVOLVE MORE TAXES NOR A DRAIN ON FEDERAL EXPENDITURES.

ROLE OF MULTINATIONAL BANKS

23. THE FACILITY IS DESIGNED TO SUPPLEMENT EXISTING CHANNELS OF INTERNATIONAL FINANCING, NOT TO REPLACE LIMITED OFFICIAL USE
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THEM. PRIVATE INSTITUTIONS WILL FIND IT EASIER TO OPERATE KNOWING THAT THE COUNTRIES WITH WHICH THEY DEAL HAVE THE POSSIBILITY OF USING THE FINANCIAL SAFETY NET. INCREASED CONFIDENCE WILL ENHANCE THE PRIVATE MARKETS' ROLE AS A FINANCIAL INTERMEDIARY BETWEEN SAVERS AND INVESTORS. UNDER THE DIRECT LOAN OPTION, THE SOLIDARITY FUND WILL BOLSTER THE BALANCE OF PAYMENTS POSITION OF BORROWING COUNTRIES, REDUCE EXCHANGE RISK AND ENHANCE CREDITWORTHINESS. SHOULD THE FUND USE THE GUARANTEE OPTION, PRIVATE FINANCIAL INTERMEDIARIES UNDERWRITING BORROWING COUNTRY'S LOANS WILL HAVE MORE INSURANCE AGAINST POSSIBLE DEFAULT. THEY WILL BE MORE PREPARED TO PROVIDE CREDITS TO DEFICIT COUNTRIES THAN WOULD OTHERWISE HAVE BEEN THE CASE. WHATEVER FORM THE FACILITY'S ASSISTANCE TAKES, IT SHOULD HELP PRIVATE MARKETS PERFORM THEIR ROLE MORE EFFECTIVELY AND THUS REDUCE THE NEED FOR FURTHER INTERGOVERNMENTAL ASSISTANCE MEASURES.

24. ABOVE ALL, THE SOLIDARITY FUND AND OUR OTHER FINANCIAL AND ENERGY PROPOSALS SHOULD BE VIEWED TOGETHER AS KEY PARTS IN AN OVERALL STRATEGY ON THE ENERGY CRISIS. WE HAVE GOT TO ACT TOGETHER ON ENERGY WITH OUR MAJOR TRADING PARTNERS. IT IS IN THEIR INTEREST

AS WELL TO JOIN WITH US. WE MUST ALL AVOID THE TEMPTA-
TION OF GO-IT-ALONE ECONOMIC AND TRADE POLICIES. THIS
REQUIRES A SET OF INTERNATIONAL POLICIES IN DIFFERENT
AREAS WHICH BOLSTER EACH OTHER AND ENHANCE
CONSUMER SOLIDARITY. ONLY IN THIS WAY CAN WE HAVE
A MEANINGFUL AND USEFUL DIALOGUE WITH OIL PRODUCERS. INGERSOLL

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